Investment Policy

MORA WEALTH MANAGEMENT

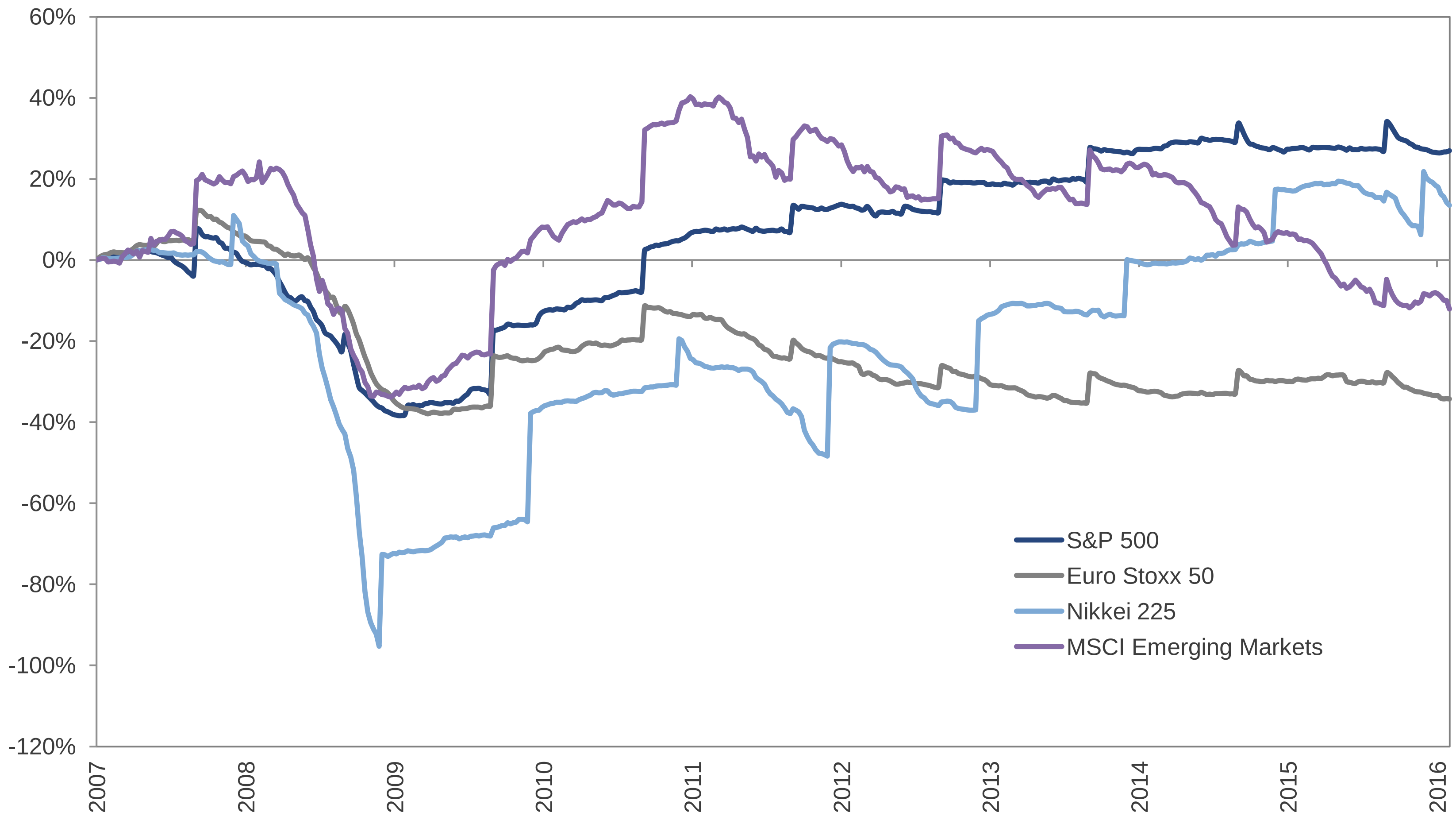
June 2016

Are stocks cheap or expensive?

- **Whether equity valuations are fairly priced remains one of the biggest questions for investors**. On the one hand, **multiple expansion** due to low interest rates support valuations, but on the other hand **earnings momentum** is losing steam and speak for flat equity markets at best
- As **the room for further interest rates decreases is limited**, we perceive the **risks of a correction** to be **larger** than those of **missing an equity rally**

Source: Bloomberg

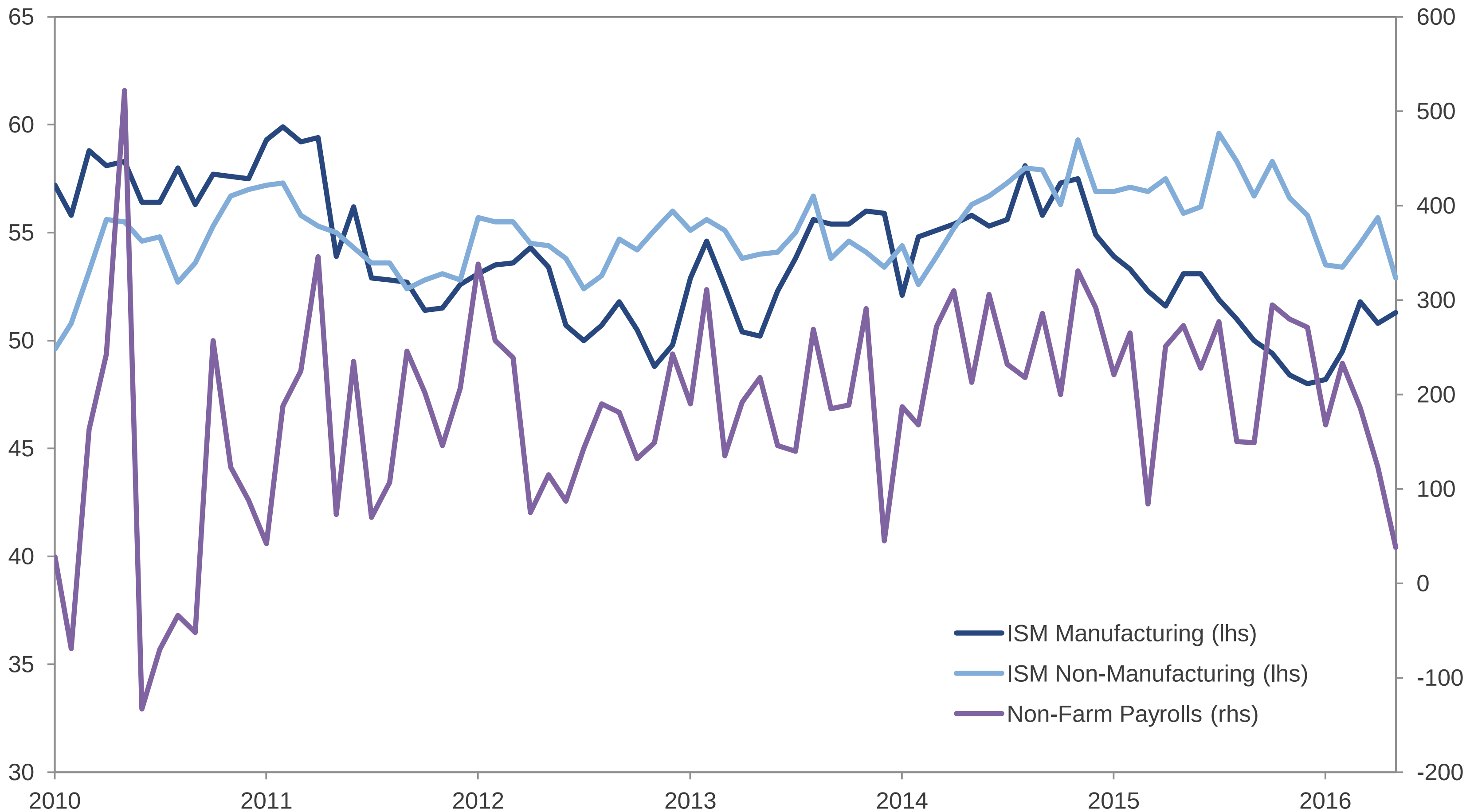
The earnings malaise is widespread



- **Earnings momentum keeps disappointing** not only across **developed markets**, but also in **emerging markets**
- On the positive side, the **earnings base is rather low**, particularly for **Europe** and **Emerging Markets**, and there is **potential for positive surprises**

Source: Bloomberg BEst EPS

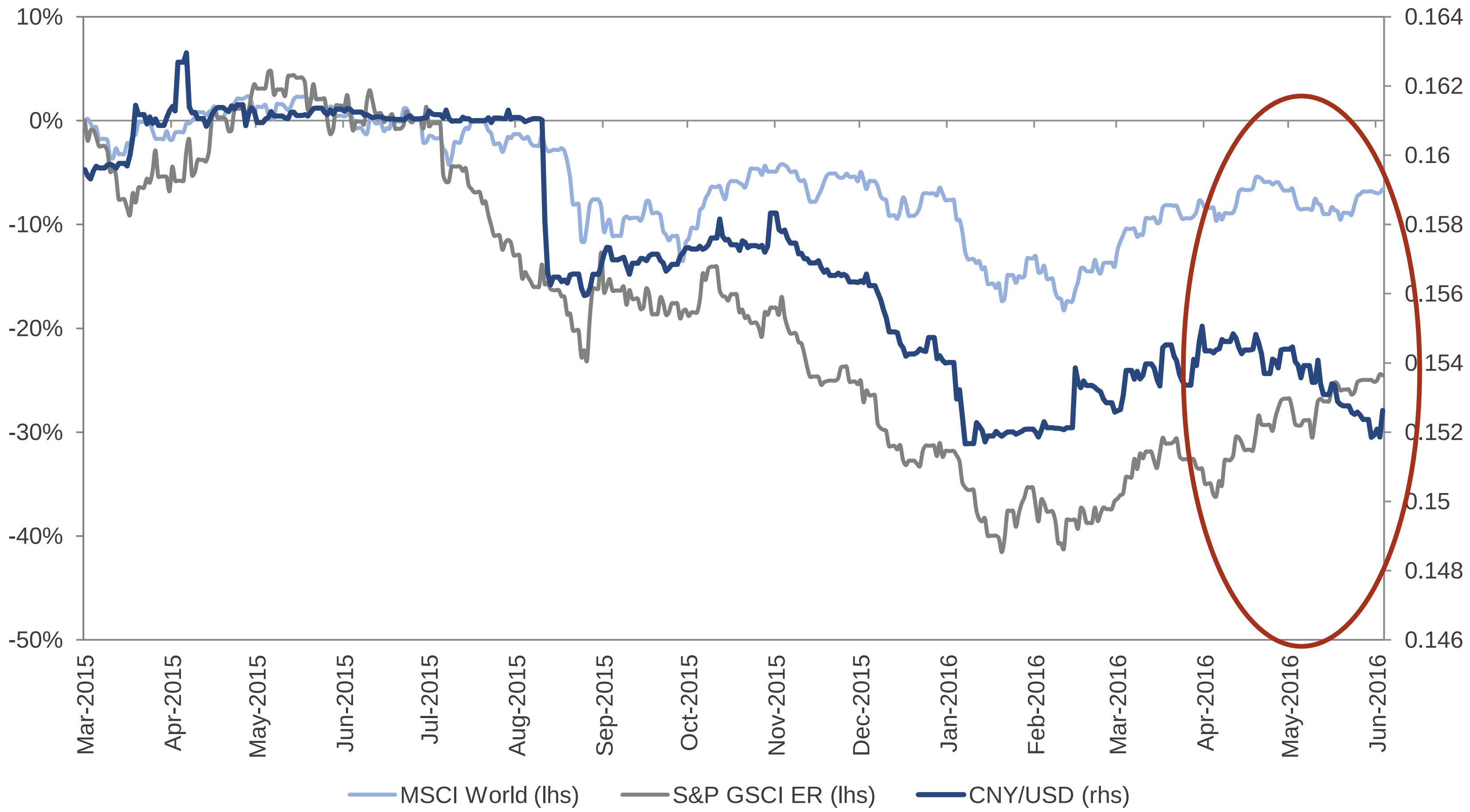
The macroeconomic picture is not very supportive



- Recent data in the US has been rather disappointing. Despite **manufacturing** activity has recently recovered from below 50, which indicates the economy is contracting, the much more important **service part of the economy** has continued decelerating
- Moreover, the latest **Nonfarm Payrolls** number for May was surprisingly low, and casted some doubts on whether the US labor market may have reached a peak

Source: Bloomberg

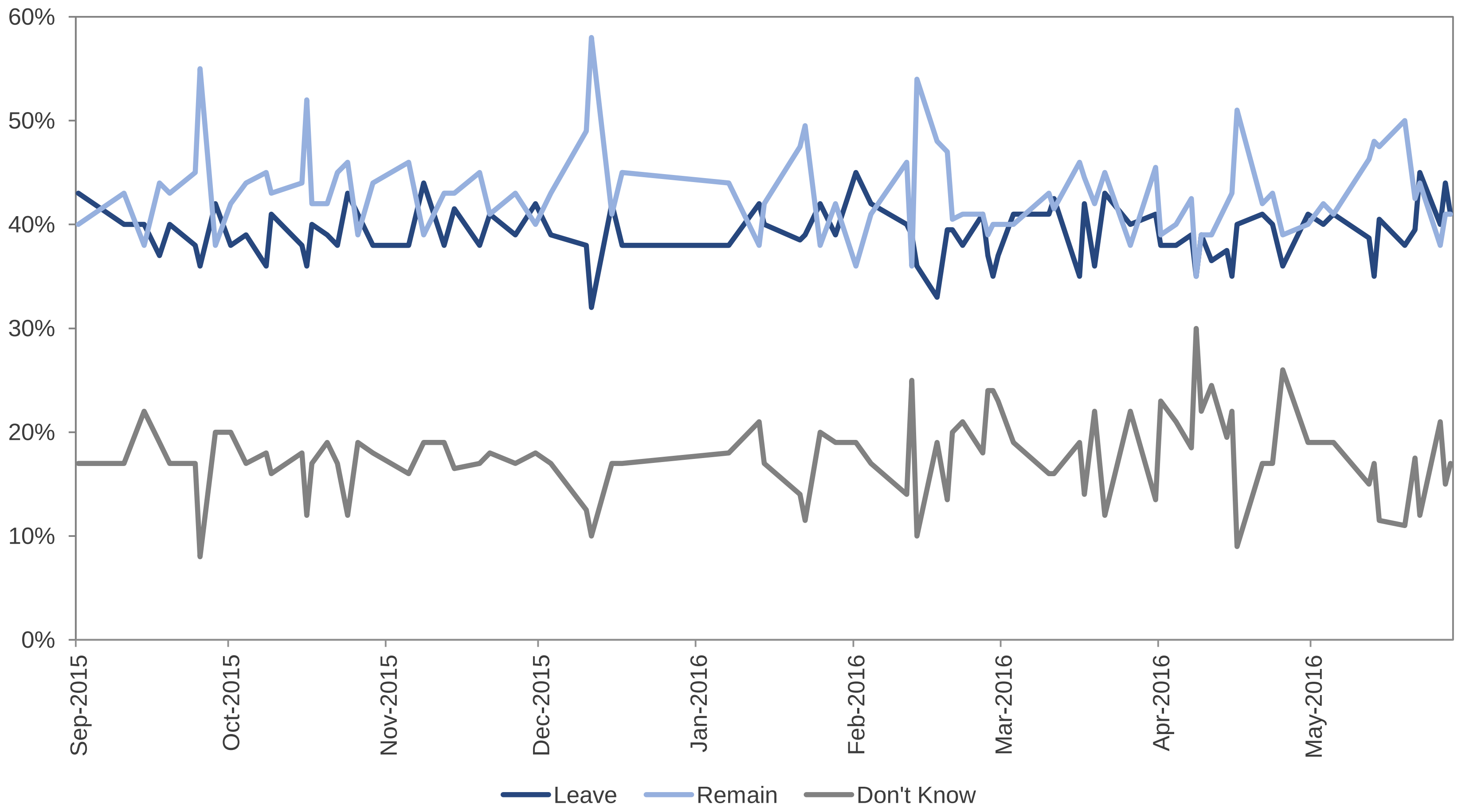
A new down leg in the Renminbi?



- The **change of currency regime in the Chinese Yuan** marked the start of the stock **market correction**
- Since then, **commodity** and **equity** prices have remained **strongly correlated** with the movements in the **Yuan**. However, this **correlation has started to break**, and whilst the Yuan is approaching the lows seen at the beginning of the year, commodities keep on trending up and equity markets stagnate

Source: Bloomberg

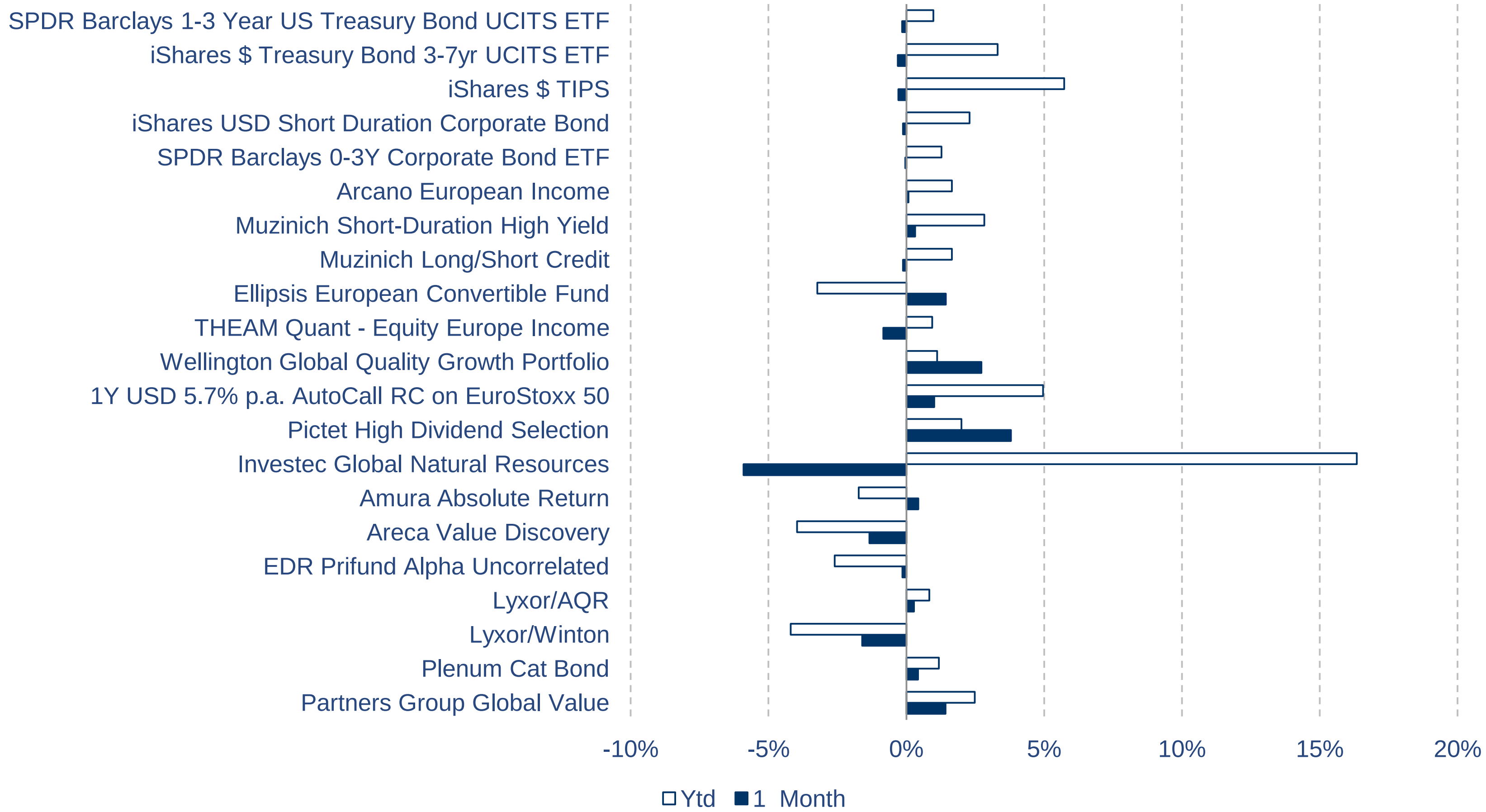
Political risks are on the rise



- The **probability of a Brexit is increasing**, with still a large number of voters undecided. Even if from an economic perspective such an event should be rather inconsequential in the long-run – provided it is not conceivable that trade between the UK and the EU will stop – the **risks of triggering financial turmoil** in the short-term will be elevated
- Beyond Brexit**,** the market will increasingly focus on the **US presidential elections**, which now seems will be a tighter than expected race

Source: Bloomberg Composite of UK EU Referendum Voter Intention Surveys

Risky assets continued performing better



- **Risky asset classes have continued outperforming** (with the exception of commodities), whilst **safe assets** performed **slightly negative**
- Diversified **hedge fund** strategies continued disappointing in May, whilst other alternative investments like **cat bonds** or **private equity** continued posting a positive performance

Source: Bloomberg as of May 31, 2016

Investment scenarios

	Scenario 1 Global economic slowdown	Scenario 2 Muddling through	Scenario 3 Inflation surprise
Drivers	• Global economic slowdown led by a hard-landing in China and/ or recession in the US • Fed delays rate rises • Strong deflationary scenario due to a combination of low growth and structural factors (demographics, low aggregated demand, deleveraging)	• Chinese authorities stabilize the market and halt economic rebalancing (weaker yuan, higher IP). US, Japan and Europe continue exhibiting low but stable growth • Fed rise rates at an accommodative pace • Low inflation due to structural factors (demographics, low aggregated demand, deleveraging)	• Growth concerns dissipate, with economic activity accelerating in Europe and Japan • Inflation in US unexpectedly increases • The Fed is behind the curve and is forced to rise rates aggressively
Market impact	• Correction in credit due to a rise in defaults and a widening of corporate spreads • Correction in equities due to lower projected earnings, though low rates will offer support • Sovereign and IG credit to profit due to flight to quality and the continuation of an ultra-loose monetary policy globally • USD neutral to weak as flight to quality is counterbalanced by low interest rates • Commodities to remain depressed	• Equities recover moderately, particularly in Europe • Credit spreads remain stable as the credit cycle is further elongated • Sovereigns suffer as monetary policy is progressively normalized • USD appreciate moderately due to higher interest rate differentials • Commodities remain weak in short term, but rebound in long-term as supply and demand balance out	• Correction in equities due to higher rates. Impact will be mitigated if higher inflation is the consequence of an acceleration in growth • Sovereign and IG bonds will face steep losses due to higher rates, particularly if long-term inflation expectations rise • Corporate credit will correct moderately if inflation comes together with higher growth • The USD will appreciate, particularly against those currencies facing deflation • Commodities will gain from higher inflation
Probability	35%	35%	30%

Short-term catalyzers

QE Ramp up (EU, Japan, China?), Fed pauses, macro-data (particularly in China) showing resilience

Other risks

Commodity prices lead to political destabilization (Russia, Saudi Arabia, Iran, Venezuela, etc.), US elections, Greece, Terrorism, Brexit…

Tactical positioning

- We remain cautious in **fixed income** favoring **short-medium** maturities due to a very unattractive combination of risk and return. We **no longer favor credit exposure** as we think the macroeconomic picture has deteriorated significantly. On the other hand, **high quality bonds** – particularly **corporate investment grade** – have turned attractive following the widening in spreads, and **Treasury bonds** can benefit from a slowdown in growth. We have also added a position in inflation-linked US Treasury bonds (**TIPS**) to get partial protection against an unexpected bout of inflation as a consequence of the extremely accommodative monetary conditions

- The **strong recovery** has brought **equity valuations** back at a point where they remain **supported by low interest rates**. Broadly speaking, we think that prospects for **corporate earnings** cannot be positive in an environment of **lackluster economic growth** and a potential **normalization of interest rates** poses a risk of returning to lower valuation multiples. As a consequence, we have **hedged our equity** exposure. From a relative **valuation** perspective, we favor **European equities**, **high-dividend stocks** and **growth stocks**

- **Alternative investments** offer a much needed source of **diversification** and (partially) **uncorrelated returns**. We recommend allocating a significant part of the portfolio to Multi-Strategy Hedge-Funds, Private Equity, Cat Bonds, Commodities and derivative strategies (covered-calls)

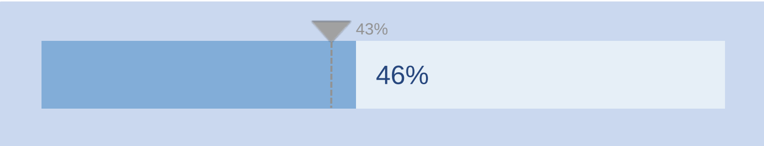
- A **larger than usual cash allocation** is advisable as the **opportunity cost** of holding cash has decreased dramatically, and it offers **flexibility** to enter the market in an opportunistic manner

MWM Investment Policy

Cash

- In the current interest rate environment the opportunity cost of holding cash has significantly decreased, hence, waiting for good investment opportunities is a sensible investment strategy
- Nonetheless, we have reduced the allocation to enhanced cash strategies as we have taken a more conservative stance on credit and allocated to short-term Treasuries

Fixed Income



- High-quality fixed income in USD currently offers a better combination of risk and return since credit spreads have widened. Treasuries can benefit from a slowdown in growth, whilst TIPS offer protection against an unexpected bout of inflation
- We avoid high-yield and emerging markets in the light of the bleak global economic outlook

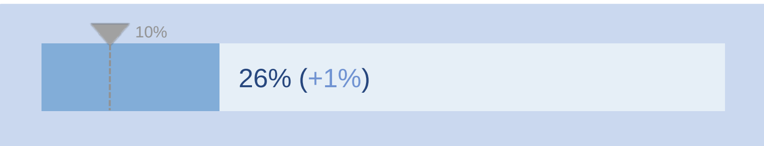
Equity

- The strong recovery has brought valuations back at a point where they remain supported by low interest rates. Low economic growth and a potential normalization of interest rates pose a risk of returning to lower valuation multiples. As a consequence, we have hedged our equity exposure
- In relative terms, Europe looks still more attractive than US and Asia

Commodities

- The sell-of in commodities can no longer be solely explained due to an oversupply in the market, and needs to be reflecting certain expectations of a deceleration in global economic activity
- Despite we think that the price decline has been too pronounced and current levels may be a good entry point, we prefer to cut exposure to mitigate downside risks in case we are proved to be wrong

Alternative investments



- Alternative investments as a source of low volatility and uncorrelated returns are more attractive than ever in the wake of the current latent risks in the market
- However, there is always a certain degree of correlation with traditional asset classes and double digit positive returns cannot be expected in the current environment

▼ Strategic Asset Allocation

MWM Model Portfolio

Cash	Cash	• Cash	3%	9%
	Money market	• Mora Money Market	3%	
	Margin account	• Mini-Short S&P	3%	
Fixed Income	US Treasuries	• iShares Treasury Bond 1-3yr	8%	46%
		• iShares Treasury Bond 3-7yr	6%	
	Short-Term Corporate Bonds	• SPDR Barclays 0-3Y Corporate Bond	8%	
		• iShares USD Short Duration Corporate Bond	8%	
	US TIPS	• iShares $ TIPS	7%	
	High Yield US	• Muzinich Short Duration High Yield	3%	
	High Yield Absolute Return	• Muzinich Long/Short Credit Yield	3%	
	Convertible Bonds	• Ellipsis European Convertible Fund	3%	
Equity	Growth	• Wellington Global Quality Growth Portfolio	3%	16%
	Europe	• THEAM Quant Equity Europe Income	3%	
	Volatility	• Reverse Convertibles on Blue Chips	6%	
	High Dividend Yield	• Pictet High-Dividend Selection	4%	
Commodities	Diversified	• Investec Global Natural Resources	3%	3%
Alternative Investments	Multi-Strategy	• EDR Prifund Alpha Uncorrelated	4%	26%
	Multi-Strategy	• Amura Absolute Return	4%	
	Relative Value	• Areca Value Discovery	4%	
	Multi-Strategy	• Lyxor AQR Systematic Total Return	3%	
	CTA, Diversified	• Lyxor Winton Fund	3%	
	Cat Bonds	• Plenum CAT Bond Fund	4%	
	Private Equity	• Partners Group Global Value	4%	

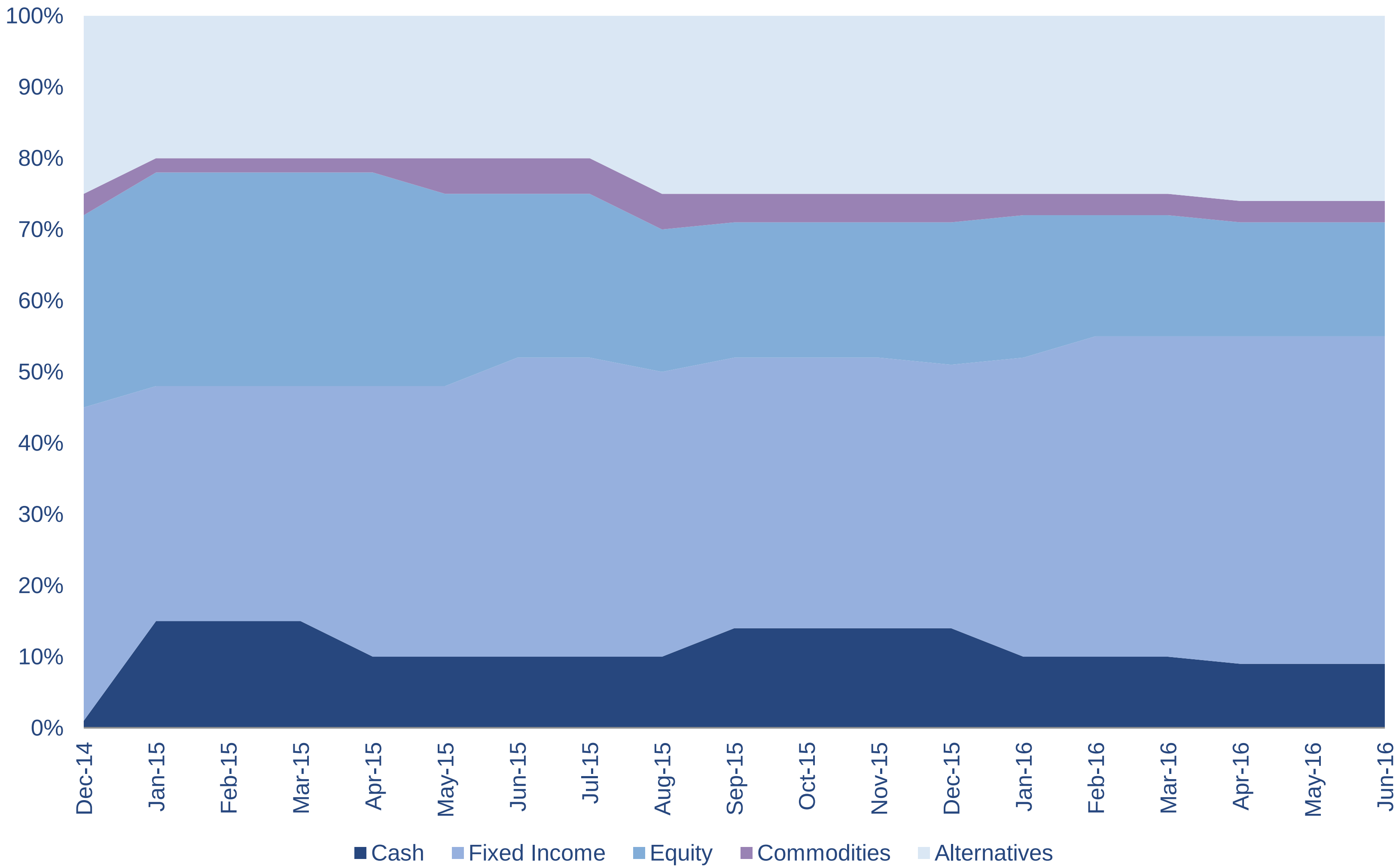
MWM Investment Profiles

MORA WEALTH MANAGEMENT

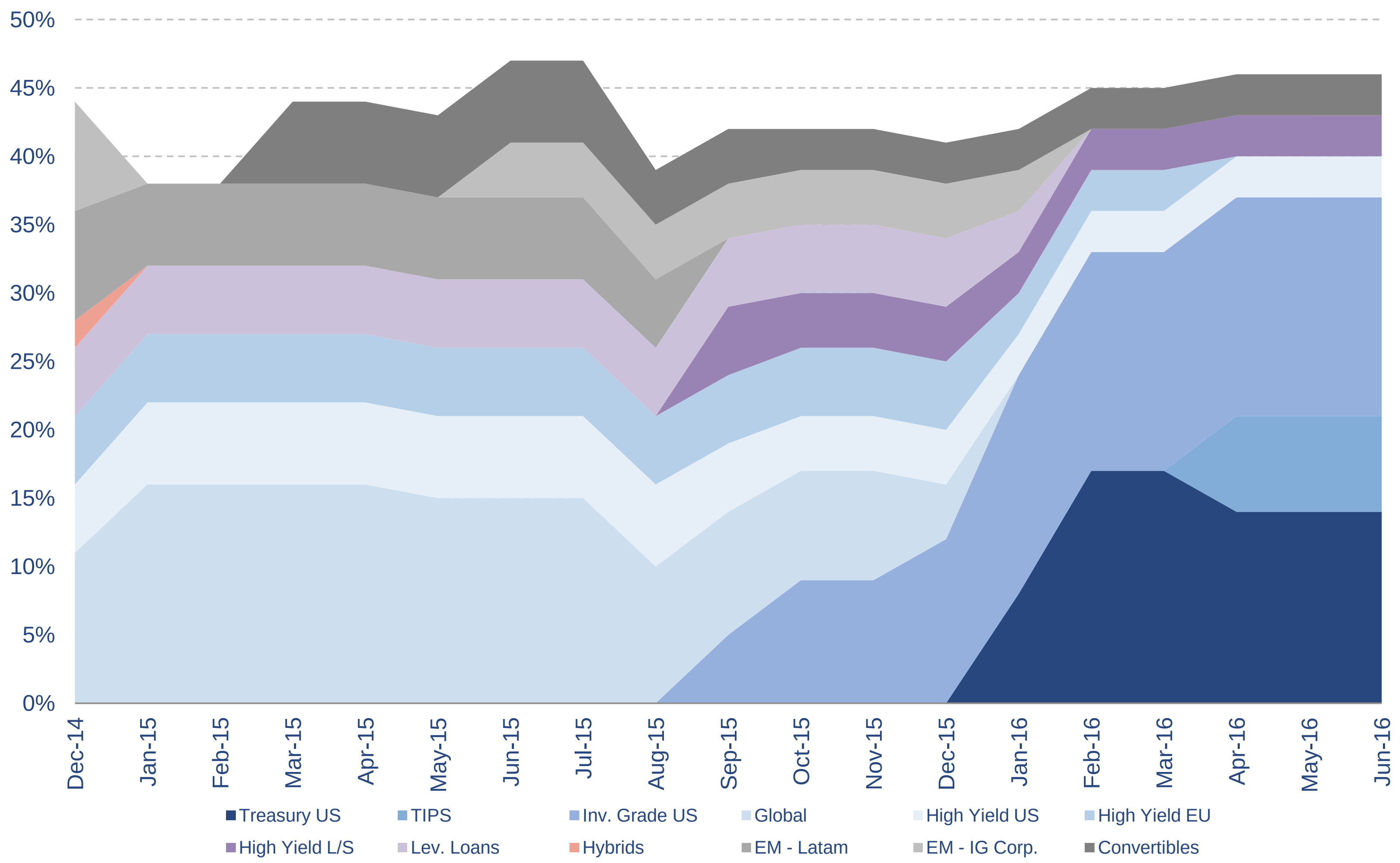
	Conservative	Balanced	Growth
Cash	11% (▼ 5%)	9% (▼ 5%)	5% (▼ 5%)
Fixed Income	58% (▼ 64%)	46% (▼ 43%)	33% (▼ 22%)
Equity	9% (▼ 24%)	16% (▼ 38%)	25% (▼ 52%)
Commodities	2% (▼ 2%)	3% (▼ 4%)	5% (▼ 6%)
Alternative Investments	20% (▼ 5%)	26% (▼ 10%)	32% (▼ 15%)

▼ Strategic Asset Allocation

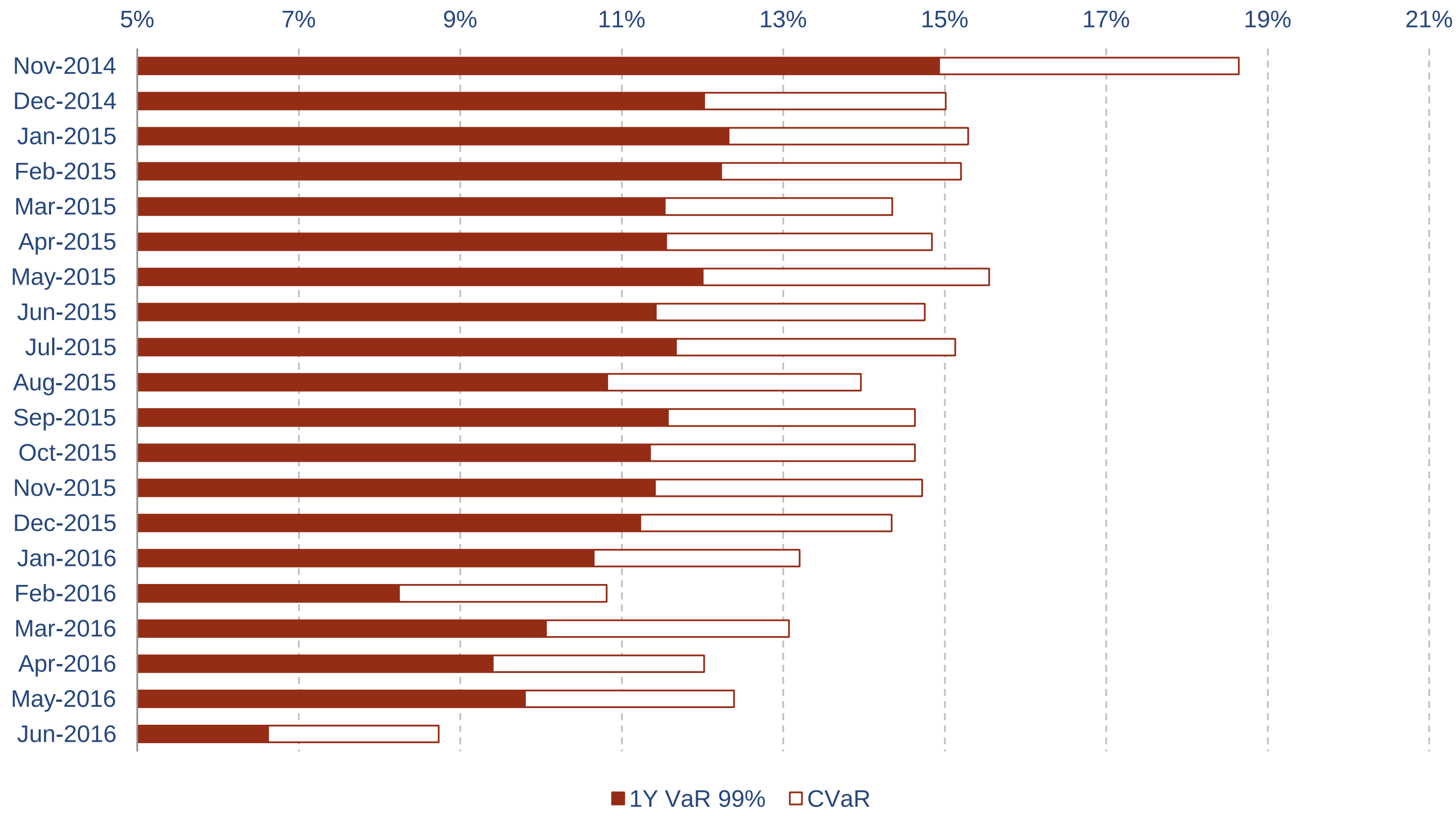
MWM Model Portfolio – Fixed Income Evolution



MWM Model Portfolio – Fixed Income Evolution

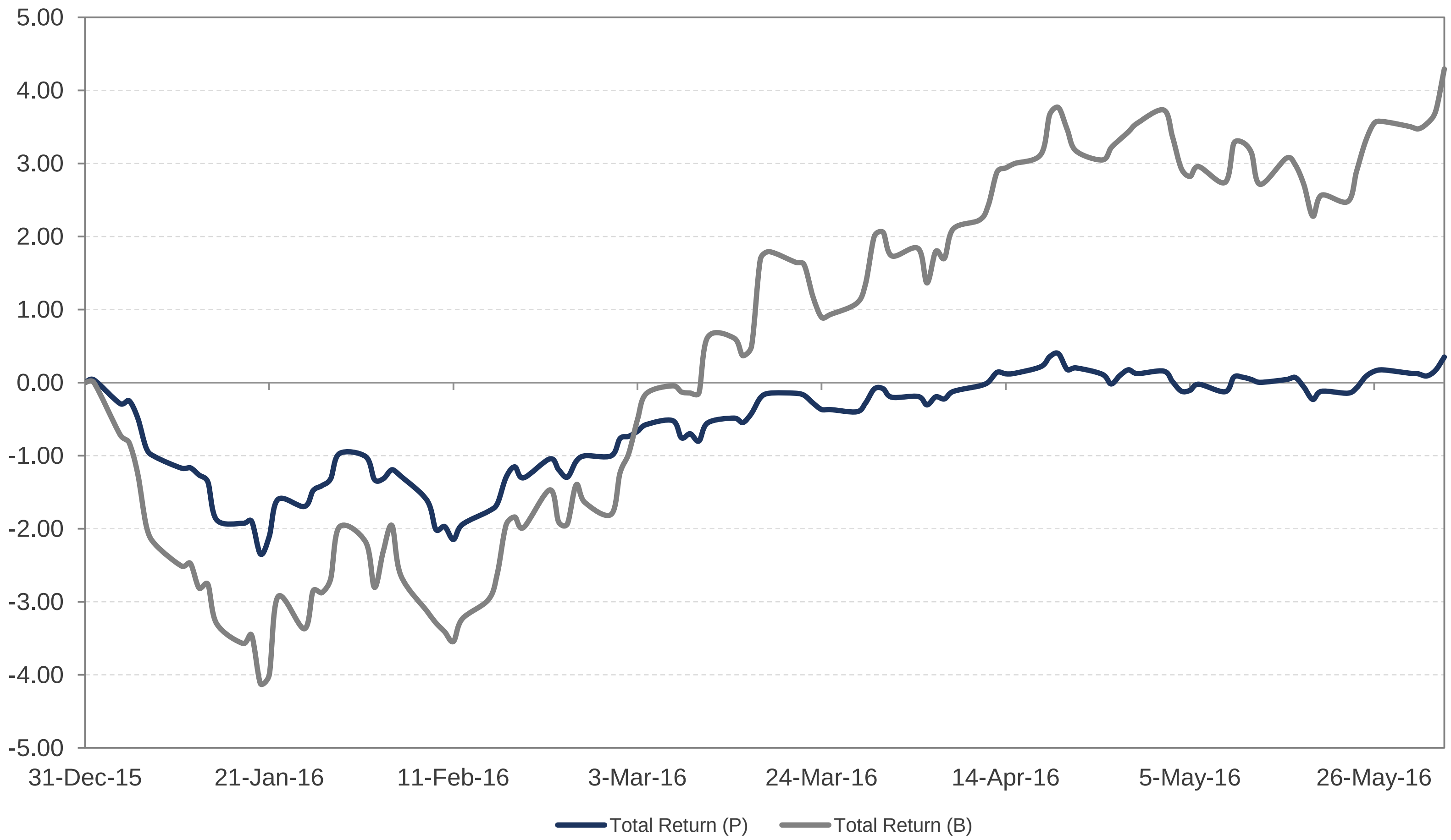


MWM Model Portfolio – VaR Evolution



- Since **August's** correction, we have **further taken out risk** from the portfolio; a process continued this year by further **reducing exposure to credit** (High Yield and Emerging Markets) and increasing the allocation to **US Treasuries**
- The **short position on the S&P 500 future** is not reflected in the VaR figure, but it would reduce it to low single-digits

MWM Model Portfolio – Ytd performance (Net)



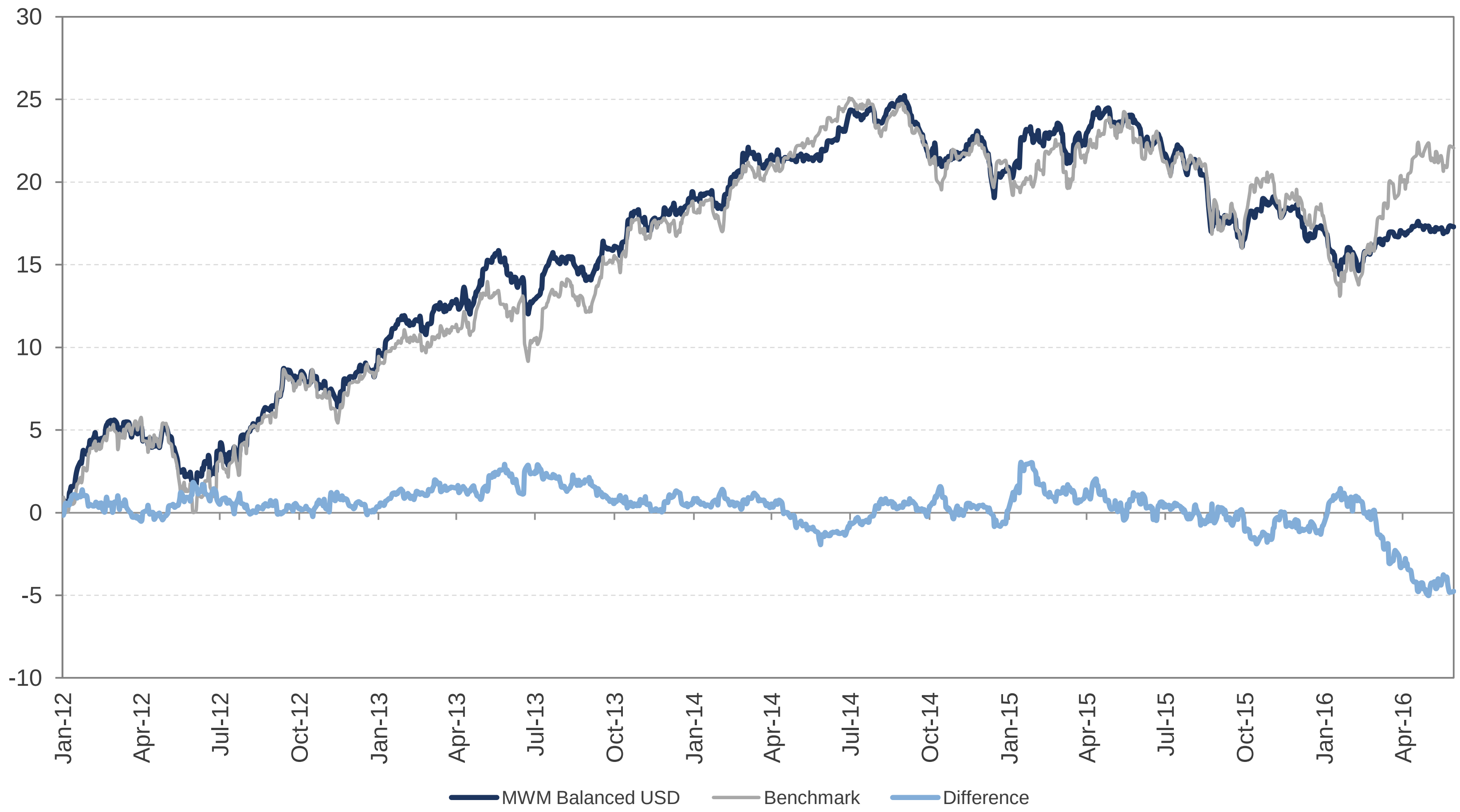
- **Total Return** (Ytd[1]): **0.35%** vs. **4.29%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **2.70%** vs. **5.97%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **2.01%** vs. **4.06%** Benchmark[2]
- **Var 95%** (Ytd[1]): **-0.32%** vs. **-0.53%** Benchmark[2]

[1] As of June 3, 2016

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

MWM Model Portfolio - Historical performance (1)

MORA WEALTH MANAGEMENT

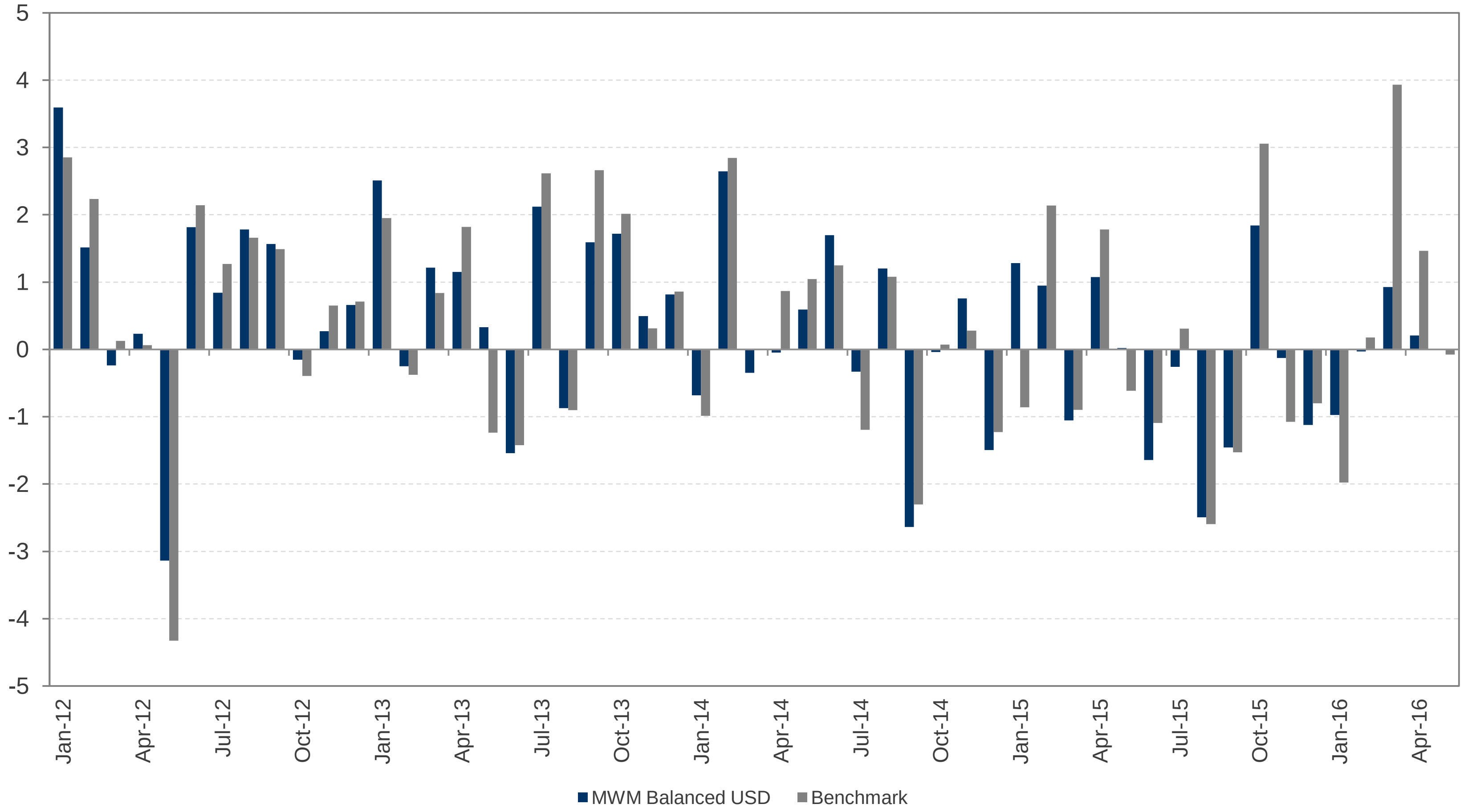


- **Total Return** (1 year[1]): **-4.58%** vs. **0.28%** Benchmark[2]
- **Total Return** (3 year[1]): **2.79%** vs. **9.69%** Benchmark[2]
- **Total Return** (Since Jan 12[1]): **17.29%** vs. **22.06%** Benchmark[2]

[1] As of May 31, 2016

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

MWM Model Portfolio - Historical performance (2)



- **Standard Deviation** (1 year[1]): **3.64%** vs. **5.78%** Benchmark[2]
- **Downside Risk** (1 year[1]): **2.78%** vs. **4.04%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **-1.28%** vs. **0.05%** Benchmark[2]
- **Var 95%** (1 day[1]): **-0.42%** vs. -**0.56%** Benchmark[2]

[1] As of May 31, 2016

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF